



The Real Estate TRENDS

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REAL ESTATE ACTIVITY

For the past two or three months we have warned of becoming too optimistic over glowing reports of isolated real estate activity. Our various barometers indicate that while real estate activity is well above normal, it is still on the way down.

After a slight halt in July (the first upward movement since the drop began in June 1946), the activity index for August dropped to a point 38.3 per cent above our long-term computed normal. This is the lowest point the index has reached since November 1945.

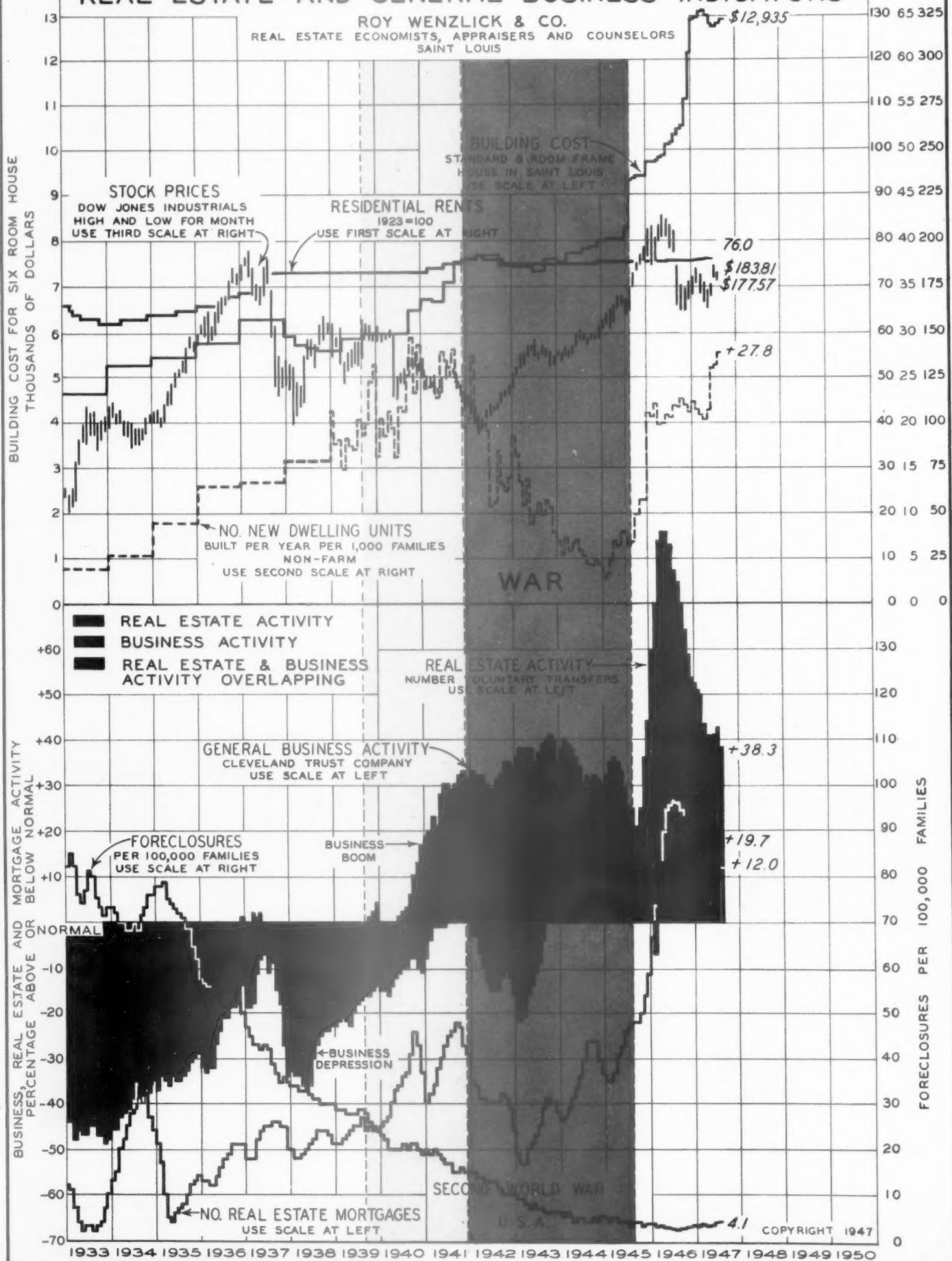
In the early part of every real estate boom of the past most of the real estate transactions have consisted of the transfer of older properties on a basis where the seller could take out the sales price in cash if he so desired. This does not mean, of course, that the purchaser paid all cash, but in the great majority of cases he paid some cash and it was possible to finance the balance of the purchase in such a way that all cash was available if desired to the seller.

As the booms of the past have progressed, however, this situation gradually changed, first to a condition where the seller because of the height of the market could get out some cash and would take back a part purchase money mortgage for the balance. In the last stages of a real estate boom, most of the real estate activity consists in the trading of properties, both properties at inflated prices which they would not bring on a cash basis. The owners of both properties fooled themselves and each other by this method into thinking that the high values which were current a few years earlier still prevailed (\$25,000 cats for \$25,000 dogs).

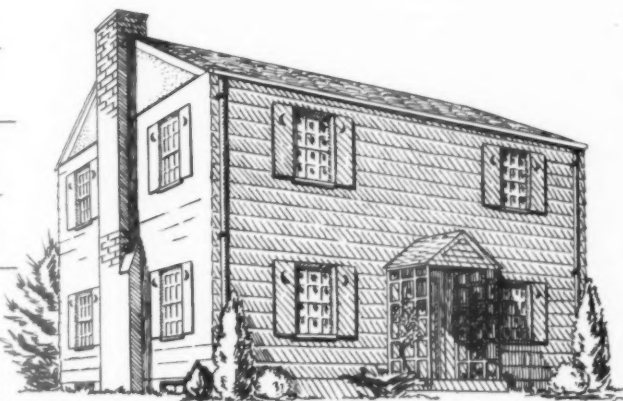
There would be no particular harm in trades of this sort, provided that the cash values of both properties and the percentages of equity were even, but in actual practice most trades of this sort attempt to trade the ownership of a property held almost clear at an inflated price for a slim equity in a much larger property, also valued at a much inflated price. In the great majority of cases of this sort, the person trading the smaller property eventually loses the equity in the larger property, although he could have probably come through a sizable real estate depression with his original property intact. The real estate broker is the only person who apparently gains on the transaction, as he collects a commission from the sellers of both properties involved in the trade. The value of collecting commissions of this sort from a dead market is very doubtful, however, as in the great majority of cases it results in the creation of a lasting ill will.

REAL ESTATE AND GENERAL BUSINESS INDICATORS

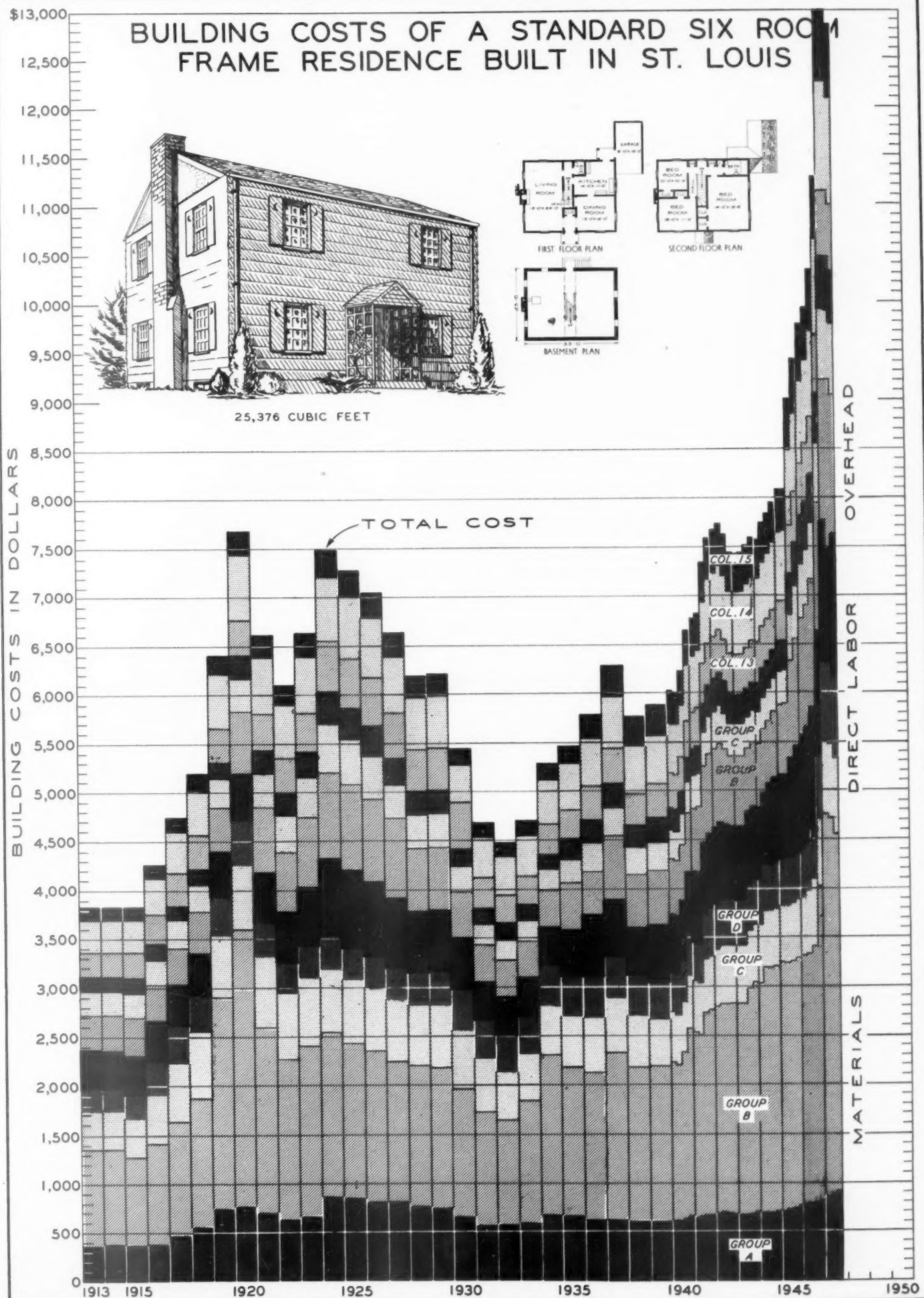
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SAINT LOUIS



BUILDING COSTS OF A STANDARD SIX ROOM FRAME RESIDENCE BUILT IN ST. LOUIS



25,376 CUBIC FEET



BUILDING COSTS OF A STANDARD SIX ROOM FRAME HOUSE BUILT IN ST. LOUIS

Costs are grouped into four classifications of material, four of labor and three of overhead. A further breakdown of these groups is given in detail below. Columns of the table are numbered, and a brief description of the items included in each is given in the paragraphs below. Paragraphs are numbered to correspond with the columns described. Building material costs are indicated by the letter **M**; corresponding labor items, in red by the letter **L**. No labor items are shown in Column 10, **Building Hardware** as they have already been included in Column 5, **Millwork**.

Group A

(1) Masonry: Cement, sand, gravel, quick lime, hydrated lime, hard wall plaster, face and common brick, fire brick, flue lining.
(2) Tile Work: 4-1/4 x 4-1/4 wall tile, ceramic floor tile, cap and base.

Group B

(3) Unfinished Lumber: Columns, beams, floor and ceiling joists, interior and exterior studs, rafters, bracing, etc.
(4) Finished Lumber: Sub-flooring, sheathing, beveled siding, finished floors, asphalt shingle roofing, roofing felt, tar paper, shutters, etc.
(5) Millwork: Windows, doors, trim, kitchen cabinet, stairs.

Group C

(6) Heating: Boiler, insulating jackets, fittings, tools, pipes, connections, valves and

radiation.

(7) Plumbing: Soil pipes and connections, stack, water pipe and connections, lead oakum and bathroom fixtures; hot water heater and tank to be furnished by others.

Group D

(8) Sheet Metal: Galv. iron (present) gutters, downspouts, flashing.
(9) Electrical Work: Main switch, BX cable, switch boxes, receptacles, transformer, etc. No fixtures included.
(10) Nails and Hardware: Common and wire nails, bolts, damper, ash doors, finish hardware.
(11) Painting: White lead, linseed oil, turpentine.
(12) Miscellaneous: Metal and wood laths, corner bead, insulation.

Total Material and Labor Costs

Group E

(13) Overhead and profit of subcontractors in plastering, metal work, heating, plumbing, electrical work and tile work.
(14) General contractor's profit.
(15) Missouri sales tax (now 2% on materials), old age and unemployment tax (Federal and State), liability and employees' compensation insurance, fire and tornado insurance, completion bond.
(16) Total overhead, profit and other costs.

TOTAL CONSTRUCTION COST

Year	GROUP A			GROUP B			GROUP C			GROUP D			GROUP E			TOTAL
	(1) M	(2) L	(3) M	(4) M	(5) L	(6) M	(7) L	(8) M	(9) L	(10) M	(11) L	(12) M	Total M	(13) L	(14) M	
1913	\$343	\$388	\$24	\$13	\$218	\$101	\$428	\$134	\$350	\$121	\$152	\$136	\$231	\$110	\$65	\$12
1914	362	388	24	13	212	101	415	134	349	121	147	136	248	110	59	12
1915	360	388	24	13	189	108	373	145	329	131	152	144	249	116	68	12
1916	366	396	24	13	224	108	438	145	363	131	203	144	309	116	101	12
1917	456	413	25	14	258	109	500	146	396	132	244	152	359	122	108	12
1918	539	421	25	15	292	118	570	158	449	143	322	152	359	124	95	14
1919	624	453	25	15	319	128	1008	170	729	154	290	160	349	130	83	15
1920	742	463	28	17	607	183	1189	243	1030	220	305	184	372	150	83	21
1921	674	501	25	18	479	188	920	250	506	225	273	192	460	156	64	22
1922	609	506	25	18	362	174	703	232	571	209	258	204	433	166	64	20
1923	633	576	25	21	410	200	793	268	551	242	267	227	430	184	70	23
1924	618	703	25	18	401	246	779	328	492	296	274	277	388	224	64	28
1925	606	684	25	18	375	251	732	335	472	302	273	255	381	207	68	29
1926	566	653	25	18	379	240	732	320	432	288	264	244	381	197	69	27
1927	565	621	25	18	354	228	715	304	358	275	251	184	395	159	67	26
1928	563	541	208	97	406	184	644	244	377	220	261	184	382	151	71	21
1929	565	541	185	97	360	184	687	244	384	220	270	184	385	151	82	21
1930	474	422	185	97	340	135	655	181	312	164	251	140	341	114	71	15
1931	411	342	155	57	313	108	594	145	254	131	226	112	322	91	58	12
1932	438	342	139	51	268	108	532	145	269	131	210	112	286	91	50	12
1933	457	342	130	51	355	108	562	145	344	131	208	112	270	91	52	12
1934	540	342	122	51	439	108	713	145	494	131	234	112	279	91	55	12
1935	508	422	111	67	399	135	638	181	523	164	236	140	292	114	43	15
1936	506	490	111	67	364	159	655	209	494	188	255	160	301	131	50	19
1937	503	512	111	67	395	186	742	245	578	221	247	160	326	141	54	22
1938	508	425	103	67	350	157	647	204	571	179	241	160	297	134	49	19
1939	513	525	103	77	360	159	660	211	513	190	239	160	277	133	49	19
Ja 1940	510	538	103	77	374	158	679	215	567	195	236	160	282	131	58	17
Ap 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17
Je 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17
O 1940	510	542	145	86	494	162	763	218	628	197	254	160	294	161	63	17
Ja 1941	515	640	145	86	493	182	808	243	645	219	242	160	266	161	62	19
Ap 1941	487	639	159	86	463	182	771	243	633	219	251	180	274	149	62	19
Je 1941	510	650	159	86	553	220	802	279	635	252	250	180	274	149	90	19
O 1941	514	678	159	86	544	226	861	303	689	274	262	200	289	187	106	29
Ja 1942	514	696	175	86	536	231	854	305	689	275	262	200	314	187	64	29
Ap 1942	520	696	175	86	547	231	876	305	715	275	273	200	317	187	64	29
Je 1942	520	696	175	86	540	233	874	307	715	276	273	200	317	198	72	29
O 1942	520	668	162	86	558	207	884	274	715	248	273	180	317	149	56	29
Ja 1943	520	668	151	86	561	207	884	274	715	248	273	180	317	149	56	29
Ap 1943	520	668	151	86	561	207	884	274	715	248	273	180	317	149	56	29
Je 1943	520	648	151	99	561	189	884	247	715	222	273	180	317	149	56	20
O 1943	528	648	151	99	662	189	1005	247	715	222	273	180	317	149	56	20
Ja 1944	528	648	175	99	662	189	1003	247	663	222	273	180	317	149	56	20
Ap 1944	528	648	175	99	700	189	1109	247	663	222	273	180	317	149	56	20
Je 1944	528	648	175	99	700	189	1109	247	679	222	273	180	317	149	56	20
O 1944	537	762	175	99	700	189	1112	247	679	222	273	180	317	149	56	20
Ja 1945	537	763	175	99	700	212	1112	277	702	249	273	180	317	149	56	20
Ap 1945	551	763	175	99	700	212	1112	277	702	249	273	180	317	149	56	20
Je 1945	551	763	175	99	700	212	1112	277	702	249	273	180	317	149	56	20
O 1945	603	997	175	113	695	312	1117	429	702	345	273	292	320	251	56	20
Ja 1946	609	1068	175	113	695	330	1117	456	702	411	265	308	322	259	59	29
F 1946	609	1068	175	113	695	330	1117	456	702	411	265	308	322	259	59	29
Mr 1946	609	1068	175	113	695	330	1141	456	702	411	285	308	322	259	62	29
Ap 1946	615	1089	175	113	714	330	1100	456	702	411	306	308	332	259	59	29
My 1946	615	1089	175	113	714	330	1102	456	734	411	306	308	332	259	59	29
Je 1946	632	1091	175	113	714	359	1102	499	734	451	333	308	337	259	59	29
Ja 1947	631	1091	175	113	714	359	1118	499	734	451	330	308	358	259	59	29
Ag 1947	631	1158	175	113	723	359	1127	499	734	451	330	308	358	272	59	29
S 1947	644	1158	175	113	723	359	1127	499	792	451	330	308	383	272	59	29
O 1947	644	1158	175	113	723	359	1134	499	837	451	330	308	383	272	59	29
N 1947	598	1158	192	128	981	359	1292	519	893	451	330	308	349	272	59	29
D 1947	628	1159	214	131	1134	359	1679	519	918	451	344	330	399	272	89	29
Ja 1947	645	1342	214	131	1134	390	1685	553	1017	481	353	396	404	319	102	29
F 1947	645	1342	214	131	1150	390	1695	553	1030	481	352	396	406	319	102	29
Mr 1947	645	1342	214	131	1177	390	1749	553	1035	481	352	396	406	319	102	29
Ap 1947	675	1342	214	131	1177	390	1752	553	1035	481	377	396	401	319	102	29
My 1947	681	1342	214	131	1175	390	1640	553	1035	481	377	396	396	319	102	29
Je 1947	681	1342	214	131	1033	390	1597	553	1035	481	377	396	396	319	109	29
Ja 1947	681	1342	214	131	939	390	1631	553	1035	481	377	396	396	319	109	29
Ag 1947	696	1342	214	131	939	390	1631	553	1072	481	377	396	404	319	114	29
S 1947	701	1342	214	131	939	390	1643	553	1072	481	409	396	432	319	114	29



CONSTRUCTION COSTS

compares the present dollar, cubic and square foot cost of these buildings with the same costs in 1939.

	30-family apartment	18-family apartment	2-story brick	6-room frame	5-room brick veneer
CONTENT					
Cubic feet	303,534	168,385	23,100	25,376	23,913
Square feet	21,372	13,260	1,520	1,650	1,165
1939 COST					
Dollars	\$135,000	\$ 60,300	\$ 6,400	\$ 5,894	\$ 5,440
Per cubic foot	44.5¢	35.8¢	27.7¢	23.2¢	22.7¢
Per square foot	\$ 6.33	\$4.55	\$4.21	\$3.57	\$4.67
SEPT. 1947 COST					
Dollars	\$258,451	\$120,006	\$12,638	\$12,935	\$11,340
Per cubic foot	85.3¢	71.5¢	54.7¢	51.0¢	47.4¢
Per square foot	\$12.12	\$9.06	\$8.31	\$7.84	\$9.72
% increase over 1939	91.5	99.0	97.2	119.5	108.5

We think that construction costs will continue to hover near their present level for the next several months.

REAL ESTATE MORTGAGES AND FORECLOSURES

with a reading of 4.1.

Neither the mortgage activity index nor the foreclosure index showed any significant change, mortgage activity dropping slightly from 13.3 to 12.0, and foreclosures remaining practically the same,

In preparing a study of some ninety individual cities we find the rate of foreclosure rising at brisk pace in some localities. Thus, while a nationwide foreclosure index gives a fine indication of the general state of affairs, weak spots frequently develop in various cities or sections of the country. Real estate men and investors must use "national average" data along with their knowledge of their own community in shaping their future programs.

For some time now we have been advocating a policy of caution for mortgage lenders. It's quite difficult, when other firms are starry-eyed with optimism and being most liberal in their appraisals and loans, to keep one's feet on the ground, admit that today's values are over-inflated, and insist on a firm and cautious course. That type of mortgage lender will lose a lot of business, and a few years from now he will realize how fortunate he was to lose it. But, despite the competition from the "sunshine boys," he will be able to make his share of loans and so long as he isn't carried away by the spirit of the times he will make money.

RESIDENTIAL CONSTRUCTION

Although the government agencies continue to report new high levels in home building, we are still building at a much lower rate than in the last boom. The government reports a total of 83,000 units put under construction in nonfarm areas for the month of August. This is at a

rate of 27.8 units per 1000 families per year. In early 1924 and in mid-1925 we were building at a rate of 47 to 48 units per 1000 families per year.

Our studies in 2200 incorporated areas have not been republished since the controls on housing were loosened the last of June. However, these studies show that in these areas 181,411 units were covered by permits issued during the first half of 1946 and 176,405 units were covered by permits issued during the first half of 1947. We will continue these investigations on a quarterly basis and report our findings and conclusions to you. We expect our next reports from these areas to show a gain due primarily to the release of controls.

The Bureau of Labor Statistics estimates that 500,000 nonfarm dwelling units have been completed during the first eight months of this year. If completions continue at this rate for the balance of the year, they will reach the minimum figure of 750,000 which we forecast in the January 1947 issue of the Real Estate Analyst.

GENERAL BUSINESS AND THE STOCK MARKET

The fear of a recession this year has caused many companies to lower inventories, with the probability that during the balance of the year purchases by retailers for Christmas trade will be quite heavy and by many manufacturers will be larger than was formerly expected. During this same period material will still be shipped to Europe at a heavy rate.

It seems doubtful that there could be any sort of business collapse during the balance of 1947, with the probability that the totals for the year 1947 will stand out for many years as the peak of the general business boom.

As we have indicated a number of times before, we think it would have been a very healthy situation had the recession in business developed early in the year while the demand for capital goods was still great, as a recession at that time could not by any chance have developed into a major depression. If we postpone the inevitable readjustment which must come for several years longer, when it does come it will be far more serious than it would otherwise be.